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REPORT OF THE SECRETARY-GENERAL PURSUANT TO PARAGRAPH 11 OF RESOLUTION 986 (1995)

I. INTRODUCTION

1. The present report is submitted to the Security Council pursuant to paragraph 11 of resolution 986 (1995), by which the Council requested the Secretary-General to report to the Council 90 days after the date of entry into force of paragraph 1 of the resolution. On the basis of observation by United Nations personnel in Iraq and in consultation with the Government of Iraq, this report was expected to provide information on whether Iraq had ensured the equitable distribution of supplies for essential civilian needs, in accordance with paragraph 8 (a) of resolution 986 (1995). As at 3 March 1997, no consignment of humanitarian goods authorized under resolution 986 (1995) had reached Iraq. This report will, consequently, focus on the status of preparations for the observation process and for the implementation of activities in the three northern governorates. The report also covers information on the sale of Iraqi petroleum and petroleum products; the purchase of supplies for essential civilian needs; and the status of funds received and disbursed from the escrow account established under paragraph 7 of resolution 986 (1995).

2. On 9 December 1996, my predecessor informed the Security Council, pursuant to paragraph 13 of the resolution, that all the actions necessary to ensure the effective implementation of that resolution had been completed and that the Secretariat stood ready to proceed with its implementation (S/1996/1015). Accordingly, the resolution came into force at 0001 Eastern Standard Time on 10 December 1996. Loading of oil started at Mina al-Bakr on 15 December 1996. The first proceeds from the sale of oil were deposited in the United Nations Iraq account (escrow account), in the Banque nationale de Paris, on 15 January 1997. As at 3 March 1997, some 52.3 million barrels of oil, worth an estimated total of $1.07 billion, had been approved for sale within the first 90 days of the coming into force of the resolution.

3. Within the Secretariat of the United Nations, there has been extensive interdepartmental coordination to ensure that the exceptionally complex requirements of the resolution are met as effectively as possible. In order to strengthen coordination among United Nations entities involved, I have re-established the Steering Committee for the implementation of resolution

986 (1995), under the chairmanship of the Under-Secretary-General for Humanitarian Affairs. On 28 February 1997, I appointed Mr. Staffan de Mistura as United Nations Humanitarian Coordinator in Iraq to succeed Mr. Gualtiero Fulcheri, who concluded his assignment on 24 February 1997.

II. SALE OF PETROLEUM AND PETROLEUM PRODUCTS

4. The work of both the oil overseers and the monitors has proceeded smoothly. During the period covered by this report, the overseers have advised the Security Council Committee established by resolution 661 (1990) on the pricing mechanisms for sales of petroleum and contract modifications submitted by Iraq and on other pertinent questions related to the import of petroleum originating in Iraq under resolution 986 (1995). In addition to performing other functions assigned to them pursuant to the procedures approved by the Committee on 8 August 1996, the overseers have worked closely with the independent oil monitors (Saybolt). As at 3 March 1997, a total of 14 monitors had been deployed to observe oil loadings and transfers: four at Mina al-Bakr oil terminal in Iraq, four at Ceyhan oil terminal in Turkey and six at the metering station near Zakho on the Kirkuk-Yumurtalik oil pipeline. The oil overseers have reviewed a total of 38 contracts, 35 of which have been approved. Owing to the sharp decline in oil prices in February 1997, spot contracts based on the approved pricing mechanisms were concluded by Iraq with the intention of realizing the 90-day revenue objective of $1.07 billion (including the proceeds to cover the pipeline transportation fee).

5. The total quantity of oil approved for export under those contracts corresponds to approximately 52.3 million barrels for the first 90 days at an estimated value of $1.07 billion. Forty-three loadings, totalling 44.7 million barrels, with an estimated value of $907.6 million, have been completed. About 66 per cent of the liftings have been made at Ceyhan in Turkey. If current market prices remain unchanged and the lifting programme is fulfilled, total revenue generated should be within the range of the 90-day objective of $1.07 billion, including the pipeline fee. The overseers are confident that, in the remainder of the 180-day period, Iraq would be able to export sufficient oil to generate the sum specified in paragraph 1 of resolution 986 (1995). In accordance with the procedures adopted by the Security Council Committee, the overseers report to it, at least once a week, on contracts scrutinized, the cumulative quantity and the approximate value of oil authorized for export.

III. PURCHASE AND CONFIRMATION OF ARRIVAL OF HUMANITARIAN SUPPLIES

6. As at 3 March 1997, a total of 267 applications for the export of humanitarian supplies to Iraq had been received by the Secretariat of the Security Council Committee. Thirty-seven of these have been submitted to the Committee for approval under the "no objection" procedure: 19 are for foodstuffs, 13 for soap/detergent and 5 for health supplies. As at 3 March 1997, a total of 11 applications have been approved. The secretariat of the Committee screens applications for humanitarian supplies and processes them in the order in which they are received. In accordance with the procedures of the Committee, applications are submitted to the Committee immediately upon

receipt of confirmation from the Controller of the availability of funds. Pending the full deployment of the observers, the Department of Humanitarian Affairs has been requested to inform the Committee that a sufficient number of observers are available to cover deliveries. Applications submitted to date have been mostly for the food and health sectors. In accordance with resolution 1051 (1996), the secretariat of the Committee and the United Nations Special Commission have coordinated procedures to scrutinize items submitted for approval which may have potential dual-use capability. As at 3 March 1997, the full complement of 32 independent inspection agents (Lloyd's Register) had been deployed to confirm the arrival of authorized goods at the agreed entry points: 10 inspectors at Umm Qasr, 11 at Zakho on the Turkish border and 11 at Trebil on the Jordanian border.

7. The Committee has convened a number of informal meetings at expert level with a view to expediting the processing of applications presented to it, and has agreed to free funds allocated to applications which have been placed on hold or blocked so that those funds may be made available for further applications which follow in sequence. Applications are also now forwarded to members of the Committee for pre-screening prior to their official circulation under the "no objection" procedure. The Government of Iraq has requested the Committee to give priority to those applications for the purchase of specific items which are needed to reach Iraq at the earliest. The Committee is currently reviewing that request.

8. The first letters of credit for the supply of humanitarian goods were issued on 14 February 1997. The work on letters of credit by Banque nationale de Paris has proceeded without any major difficulty. In some cases, however, suppliers have delayed the shipment of goods in order to amend letters of credit. Some of the requested amendments have been for valid business purposes, others have either been inconsistent with the memorandum of understanding between the United Nations and the Government of Iraq of 20 May 1996 (S/1996/356) or have been unnecessary. In order to minimize delays in shipments due to requests for changes in the letters of credit, suppliers will be requested to exercise restraint in seeking such amendments. A sample letter of credit will be sent to potential suppliers so that they can seek clarifications before the applications are submitted to the Committee.

IV. UNITED NATIONS IRAQ ACCOUNT

9. The first proceeds of oil sales were deposited into the United Nations Iraq account (escrow account) on 15 January 1997. As at 3 March 1997, the United Nations Treasury had processed letters of credit for approximately $1 billion worth of petroleum and petroleum products, and a total of $625,596,347.69 has been paid into the Iraq account by Banque nationale de Paris. These funds have been distributed as follows:

(a) $322.6 million has been allotted for the purchase of humanitarian supplies by the Government of Iraq, as specified in paragraph 8 (a) of resolution 986 (1995);

(b) $79.1 million has been allotted for the purchase of humanitarian supplies to be distributed in the three northern governorates by the United Nations, as specified in paragraph 8 (b) of resolution 986 (1995);

(c) $182.6 million has been transferred directly to the United Nations Compensation Fund, as specified in paragraph 8 (c) of resolution 986 (1995). Of this amount, $145.9 million has been allotted for the payment of the first instalment of "A" and "C" claims ($144.0 million) and for the operating expenses of the Compensation Commission ($1.9 million);

(d) $13.4 million has been allotted for the operational and administrative expenses of the United Nations associated with the implementation of the resolution, as specified in paragraph 8 (d) of resolution 986 (1995). Of this amount, $12.7 million has been allotted to the Department of Humanitarian Affairs and the United Nations agencies, $144,000 has been allotted for costs incurred by the independent oil experts (Saybolt), and $593,100 has been allocated for other administrative costs;

(e) $4.9 million has been transferred to the Special Commission for its current operating costs, as specified in paragraph 8 (e) of resolution 986 (1995);

(f) $6.1 million has been allocated to the escrow account established under resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992), as specified in paragraph 8 (g) of resolution 986 (1995);

(g) Pursuant to paragraphs 8 (f) and 9, $16.9 million has been allotted for other expenditures approved by the Security Council Committee as being reasonable and necessary for the sale of oil.

10. Pursuant to paragraph 7 of resolution 986 (1995), in which the Secretary-General was requested to appoint independent and certified public accountants to audit the United Nations Iraq account, my predecessor, in June 1996, requested the United Nations Board of Auditors to audit the account and related transactions. The Board of Auditors will commence work in April 1997.

V. OBSERVATION MECHANISM

11. In December 1996, a mission was undertaken by the United Nations Secretariat to assess the administrative and logistics requirements of the Office of the Humanitarian Coordinator in Iraq for the implementation of resolution 986 (1995). The mission recommended the strengthening of the Office, including the appointment of an internal auditor and a legal adviser. These recommendations are being implemented.

12. As outlined in the interim report of the Secretary-General (S/1996/978), the United Nations observation mechanism in Iraq will comprise three tiers of separate but complementary observers from the United Nations agencies and the Department of Humanitarian Affairs. The sectoral observers from the United Nations agencies will be responsible, at the national level, for observing the distribution of commodities imported under the resolution in regard to their

sectors. They will also provide analysis and assessment as appropriate on the effectiveness and equitability of the distribution systems relating to their sectors and on the adequacy of supplies. The geographical observation unit in the Office of the Humanitarian Coordinator will collect and consolidate all relevant information concerning the delivery, storage and distribution of commodities at governorate and district levels as required. A methodology is being developed to help assess the equity and adequacy of distribution of commodities as well as services provided. The multidisciplinary observation unit comprises international experts in the areas of food logistics, public health, pharmaceuticals, hospital equipment, water and sanitation, agricultural inputs and machinery, animal health, plant protection, education and electricity. Its principal functions are to increase the range of expertise available to the observation mechanism in Iraq, to maintain a tracking system for all supplies imported under resolution 986 (1995) and to report its analyses, conclusions and recommendations directly to the Department of Humanitarian Affairs. The overall responsibility for the observation process will rest with the Department and its observation and analysis unit will review all reports received from the Office of the Humanitarian Coordinator and the multidisciplinary observation unit.

VI. PRE-OBSERVATION AND IMPLEMENTATION ACTIVITIES

13. In accordance with its obligations under resolution 986 (1995) and the memorandum of understanding, the Government of Iraq has taken a number of measures to facilitate the work of the observers. It has reaffirmed its commitment under the memorandum of understanding to guarantee to the United Nations personnel unrestricted freedom of movement in connection with the performance of their functions, and has authorized the use of Habbaniya airport for international staff deployed under resolution 986 (1995). The Government of Iraq has also agreed to the establishment of appropriate communications systems by the United Nations. Pursuant to paragraph 16 of resolution 986 (1995) and paragraph 44 of the memorandum of understanding, the Office of the Humanitarian Coordinator and United Nations agencies are working with the Iraqi authorities to obtain a range of official baseline data essential to the work of the observation process. This information will assist the observers in tracking supplies imported under the resolution and facilitate reporting on the efficiency, equitability and adequacy of those supplies.

14. As part of the preparatory measures taken by the United Nations in Iraq, the Humanitarian Coordinator established an Inter-Agency Technical Working Group, chaired by the United Nations Children's Fund (UNICEF), to prepare six specific studies on: (a) the implementation plan, North Iraq; (b) logistical arrangements; (c) observation, reporting and assessment for central and southern Iraq; (d) personnel, administrative and financial set-up; (e) communications systems; and (f) information dissemination. These reports have helped to establish initial criteria and guidelines for the effective implementation of resolution 986 (1995).

15. The Department of Humanitarian Affairs has designed a training programme for observers. This programme, which has commenced, includes familiarization visits to government distribution facilities, and will cover the humanitarian situation in each sector, the functioning of national and local distribution

networks, the interaction needed between observers and local authorities, and a variety of related issues. Guidelines have been developed to clarify the scope of observation activity and define the observers' reporting obligations. Geographical observers are being organized into teams equipped with a basic range of experience and skills to cover each governorate.

16. A database has been designed to facilitate the work of all components of the observation process. In addition to tracking systems developed by individual United Nations agencies, a unified tracking system has been designed to identify the status and location of any given shipment as required. It will function under the responsibility of the multidisciplinary observation unit, which will, for this purpose, draw on reports from all components of the observation mechanism. The United Nations agencies, the Office of the Humanitarian Coordinator and the Department of Humanitarian Affairs have established preliminary observation criteria and reporting formats for the effectiveness, equitability and adequacy of supplies distributed under the resolution. A reporting system has been designed to ensure regular updates on the status of authorized supplies received, stored and distributed throughout Iraq.

17. As specified in the interim report of the Secretary-General (S/1996/978), 151 United Nations observers are to be deployed: 76 by the Department of Humanitarian Affairs and 75 by United Nations agencies. As at 3 March 1997, a total of 56 have been deployed by the Department and 28 by United Nations agencies. It is expected that by 15 March these numbers will have risen to 76 and 49, respectively. The main constraint on the deployment of observers, particularly by the United Nations agencies, has been the shortage of funds in the relevant escrow account for operational and administrative expenses.

18. The United Nations agencies involved in the implementation of the resolution have taken a range of measures to prepare for observing the distribution of supplies imported under the resolution for central and southern Iraq. The World Food Programme (WFP) is responsible for observing the storage and distribution of foodstuffs, and has established a tracking system to follow the movement and distribution of these goods. A WFP technical mission has designed a survey system to measure the effects of food distribution on the nutritional status of families, particularly those from vulnerable groups. The system will measure changes in overall household food security and coping strategies, taking into consideration data furnished by the Food and Agriculture Organization of the United Nations (FAO) on agricultural production and markets. FAO is responsible for observing the storage and equitable distribution of agricultural imports, including plant protection inputs, agricultural equipment and veterinary supplies.

19. The United Nations Children's Fund is responsible for observing and assessing the distribution of supplies in respect of water and sanitation, nutritional surveillance and immunization programmes. It has completed preparatory activities relating to the Multiple Indicator Cluster Survey in all governorates. An existing computerized tracking system for the water and sanitation sector has been adapted to follow the distribution and utilization of supplies for all designated water and sewage-treatment plants. The United Nations Educational, Scientific and Cultural Organization (UNESCO) is responsible for observing the distribution of supplies for the education sector

and in this regard will also work in conjunction with UNICEF. The United Nations Development Programme (UNDP) is responsible for observing the distribution and use of electricity generation/transmission equipment imported under the resolution. It is currently discussing with the relevant government authorities its requirement for detailed baseline data to support the observation process. UNDP and the Department for Development Support and Management Services have completed work on initial observation criteria. Preparatory work by the World Health Organization (WHO) has focused on the procurement, storage and distribution systems for drugs and medical supplies. It has developed an initial methodology for observation and reporting, including the development of software for tracking supplies. Fifty-nine pharmacists have been trained to use the system, which is being installed in warehouses at both central and governorate levels.

Pre-implementation activity in the northern governorates

20. In consultation with local authorities, FAO has prioritized and finalized lists of agricultural inputs. The distribution plan, criteria for identifying beneficiaries and proposed distribution mechanisms have been reviewed and refined. Local authorities and the farmers union will participate fully in distributing agricultural inputs. FAO has established an observation system, including pre- and post-monitoring and spot-checks, which will be carried out jointly with local authorities. WFP has undertaken a population survey in conjunction with local authorities and has taken the necessary steps to ensure effective food distribution arrangements. The Government of Iraq has assigned warehouses in Mosul and Kirkuk to WFP for the storage of foodstuffs to be distributed in the northern governorates; these facilities are now under WFP administration. In collaboration with WHO, WFP and UNESCO, UNICEF is responsible for a range of activities within the health, nutrition, education and water and sanitation sectors. It has developed a computerized mapping programme in the northern governorates to identify all settlements, their characteristics and access to basic services. UNICEF has undertaken a risk-mapping exercise for water and sanitation services to define priority areas where problems are most acute. It has also undertaken a survey of primary schools in order to provide a more accurate assessment of sectoral needs and priorities.

21. WHO is responsible for distribution of medicine and medical equipment. UNESCO is responsible for implementing school rehabilitation and refurbishment schemes. Surveys of the most needy schools are close to completion. In due course, these surveys will be extended to all schools. UNDP and the Department for Development Support and Management Services have prioritized lists of equipment needed in the electricity sector. The first consignment of electrical equipment is not expected before the end of June 1997 because of the long lead time for procurement in this sector, involving extensive technical exchanges with suppliers of spare parts, some of which need to be manufactured to order. The United Nations Centre for Human Settlements (Habitat) undertook a mission which designed an implementation plan for the shelter and resettlement programme. In late January 1997, the Department of Humanitarian Affairs sent a technical mission to assess the requirement for mine-clearing activities in the northern governorates and an implementation plan has been finalized.

22. Since it has been determined that the procurement of food supplies for the three northern governorates may be undertaken in the most efficient and cost-effective way through the bulk purchase of similar supplies by the Government of Iraq, it has been decided to purchase such supplies under the bulk purchase agreement with the Government of Iraq, as foreseen in paragraph 3 of annex I to the memorandum of understanding. Other materials and supplies are being procured directly by the United Nations agencies. The related guidelines for submission of applications to the Security Council Committee have been provided to the United Nations agencies. As at 3 March 1997 seven applications have been submitted through the Department of Humanitarian Affairs, of which two have been approved. Funds are released to the agencies as soon as applications are approved by the Committee.

VII. OBSERVATIONS

23. Council members will be aware that the operation in Iraq is a highly complex and complicated undertaking in the light of the arrangements set out in resolution 986 (1995). The full ramifications of these arrangements, specifically the time lag between the initial flow of oil and the actual delivery of foodstuffs, are only now becoming clear. For instance, the first proceeds from the sale of petroleum and petroleum products in the amount of $68.8 million were received in the United Nations Iraq account only on 15 January 1997, more than one month after the activation of the resolution. Then, it was not until 14 February 1997 that the first letters of credit for the purchase of humanitarian goods were issued. While these time lags are in keeping with commercial practice, the timing of the receipt of funds as well as the staggered payment schedule have a direct impact on the implementation of the Inter-Agency Humanitarian Programme, including on the deployment of staff and the arrival of food shipments. Under these circumstances, the distribution of supplies envisaged in the distribution plan could not commence before March 1997.

24. Nevertheless, I have had strong concerns about the pace at which the provisions of resolution 986 (1995) are being implemented. I have directed that a number of steps be taken both within the Secretariat and in the Security Council Committee to look for innovative and flexible approaches to overcome the constraints that the Programme has encountered. Pursuant to paragraph 12 of the resolution, the Committee has developed expedited procedures to implement the arrangements required by the resolution. While the Committee will be reporting directly to the Council on the implementation of those arrangements, I should like to acknowledge these latest measures taken by the Committee to further expedite the processing and approval of contracts for the purchase of humanitarian goods. These measures will accelerate the pace for the delivery of food, medicines, and other supplies that are urgently needed by the people of Iraq.

25. Simultaneously, I am taking steps to ensure that adequate funds are available to the Department of Humanitarian Affairs and United Nations agencies so that the necessary arrangements are completed for the delivery and observation of humanitarian assistance provided for in resolution 986 (1995). Nevertheless, the lack of sufficient funds to meet the start-up costs of the Department and the United Nations agencies has caused delays in the procurement

of equipment and the deployment of personnel to carry out the different tasks stipulated in resolution 986 (1995), the memorandum of understanding and the distribution plan. The amount actually available for operational and administrative expenses has been very limited owing to the staggered receipt of funds and the procedures established for their simultaneous distribution to the subsidiary accounts of the United Nations Iraq account. Arrangements have been established by the Controller to advance funds to help cover start-up costs of the Department and the United Nations agencies. Several agencies have used their own funds to meet these costs.

26. On the basis of contracts approved thus far by the Security Council Committee, only food shipments are expected to reach Iraq during March 1997. That notwithstanding, the Department of Humanitarian Affairs expects to have deployed all its observers by 15 March 1997. WFP and WHO, the agencies responsible for observing the distribution of food and medicine, will also have deployed most of their observers prior to the arrival of shipments. I am confident, therefore, that sufficient observers will have been deployed to observe and report on the delivery and distribution of humanitarian goods for which applications have been submitted to the Security Council Committee. I should also like to draw attention to the fact that pending the distribution of humanitarian goods under resolution 986 (1995), United Nations agencies have continued with the implementation of the Inter-Agency Humanitarian Programme in order to meet the most pressing needs of vulnerable groups throughout Iraq.

27. Taking into consideration the fact that no humanitarian goods, under resolution 986 (1995), have been delivered to date and, in spite of the additional measures being taken to expedite the approval of contracts for humanitarian goods, it appears unlikely that all of the humanitarian goods in the distribution plan will be delivered and distributed within the initial 180 days established by the resolution. The United Nations agencies involved in the implementation of the Programme in the three northern governorates have also raised concerns about the constraints caused by the limited time-frame of the resolution for the proper implementation of their activities. The Council may wish to consider the implications of these constraints for the remaining period of 90 days and for the renewal of the provisions of the resolution in accordance with paragraph 4.

28. The Foreign Minister of Iraq, His Excellency Mr. Mohammed Said Al-Sahaf, who met with me on 5 March 1997, reaffirmed his Government's commitment to cooperate with the United Nations in implementing all provisions of resolution 986 (1995) and the memorandum of understanding. At the same time, the Foreign Minister of Iraq conveyed to me his Government's serious concern that, under the present circumstances, it would not be in a position to arrange for the simultaneous distribution of all food items as envisaged in the distribution plan.

29. I shall keep the Council fully informed of the progress achieved in the implementation of resolution 986 (1995).